



Real Possibilities

Testimony of AARP CT
Proposed House Bill Number 5858
An Act Providing Funding to the Retirement Security Board
Labor Committee
February 17, 2015

Our nation and its working families face an unprecedented crisis: a vast retirement savings deficit, estimated to be as much as \$6.6 trillion, or about \$57,000 per household.¹ According to the National Institute on Retirement Security, an overwhelming majority of Americans are anxious about their retirement prospects, with some 84 percent being concerned that current economic conditions are impacting their ability to achieve a secure retirement.²

To give you an idea of how ominous the situation is, listen to these startling statistics:

- Currently, one in ten seniors in Connecticut lives in poverty.
- More than six of ten middle-class Connecticut retirees can expect to outlive their financial assets.³
- Social Security accounts for 87% of total income for low income households, and 70% of total income for middle income households of those 65 and over⁴.
- It is clear that workers are not prepared for retirement, and as Baby Boomers continue to retire, we will see this crisis grow unless we act now.

Social Security provides an essential baseline of income for retirees. However, Social Security alone will not provide enough to pay the bills during our retirement years. The average monthly Social Security benefit is only about \$1,300. As things stand today, Social Security will likely be the main source of retirement income for most future middle-class retirees.

¹ Retirement USA. *The Retirement Income Deficit (2011)*

² National Institute on Retirement Security. *Pensions and Retirement Security 2011: A Roadmap for Policy Makers.*

³ Americans for a Secure Retirement, *Retirement Vulnerability of New Retirees in Connecticut*

⁴ Boston College Center for Retirement Research. *The National Retirement Risk Index: An update (2012)*

As this Committee knows, Social Security was never supposed to be the sole source of income for retirees. It was intended to be one leg of a three-legged approach to retirement savings. Employer sponsored retirement plans and individual savings were envisioned as the other critical components.

Research shows that our nation's current plan for retirement security is inadequate. Boston College's National Retirement Risk Index estimates that 53 percent of households are at risk of having an insecure retirement, meaning that they run the risk of being unable to afford food, medicine, or utilities.⁵

Following the Great Recession, retirement savings rates remain inadequate. According to the National Institute on Retirement Security, the typical working-age household has only \$3,000 in retirement assets, while near-retirement households only have \$12,000.⁶ What is even more alarming is that these are the people who are ahead of the game because they are actually planning ahead and saving.

Three out of five families headed by a person 65 or older have no money in retirement savings accounts.⁷

Lest you think this isn't a problem locally, in Connecticut 846,000 workers, or 59 percent, do not even have access to a retirement plan.⁸ Planning for retirement is an even greater burden for economically disadvantaged groups, people of color, young people, and part time employees because they have the lowest access rates to employer-sponsored retirement plans.

If nothing is done now the state budget will be saddled with a growing burden in the future as older adults are forced to rely more and more on public safety net programs.

There are some simple steps that we can take to avert this crisis. For instance, we know that when offered the opportunity—at work—to save for retirement; seven out of ten people choose to participate.⁹ One of the biggest predictors of whether an individual will save money toward a secure retirement is whether or not they have access to an employer-sponsored retirement savings plan.

Connecticut is at the forefront in considering a state facilitated retirement plan. Last year the legislature created the Retirement Security Board through Public Act 14-217. AARP Executive Council Member William Kosturko was appointed by Speaker Sharkey as a member of the Retirement Security Board. Mr. Kosturko is a lawyer who spent most of his career working for People's Bank. The Board's mission is to conduct a market feasibility study to implement a public retirement plan and report the results to the Governor and the General Assembly no later than January 1, 2016. In consultation with key stakeholders, it must also develop and submit a comprehensive proposal by April 1, 2016 to implement the plan. Public Act 14-217 only

⁵ *Ibid.*

⁶ NIRS. *Facts from NIRS Research on Pensions and Retirement Security.* (2013)

⁷ AARP's Public Policy Institute. *The New Reality: Important Facts about America's Seniors* (2011).

⁸ Schwartz Center for Economic Policy Analysis at the New School, *Are Connecticut Workers Ready for Retirement? Trends in Plan Sponsorship, Participation, and Preparedness,* (2013)

⁹ Pension Rights Center. *How Much is Saved in 401(k)s.*

provided \$400,000 for the Board to function as well as to create the market feasibility study and implementation plans. The Board is also pursuing outside foundation support to complete its mission. However, with more than a dozen states looking to complete similar work, outside development will be difficult. It is important that the legislature provide the remaining resources needed in order to finish this critical work.

Many of you may have some concerns about the work of the Retirement Security Board. Common questions that we have encountered include:

Won't this cost the state a lot of money? This plan, and those considered by other states, will be self-sustaining once up and running, paid for through participant fees. Furthermore, Connecticut can't afford *not* to take action. If older adults do not have enough money for secure retirement, they will more heavily rely on Medicaid, which is the most expensive program in the state. These are dollars that the state can spend on other essential services like education and public safety. By helping people plan for self-sufficiency in retirement, the state will ultimately save money.

Won't the state incur new unfunded liabilities by creating a state run retirement savings plan? Emphatically the answer to this question is no. The Retirement Security Board is looking to create defined contribution plans, which don't create liabilities to the state. Startup costs will be borne by the participants of the plan.

Why don't people just invest on their own? Is this legislation really needed? With a majority of workers relying on Social Security for their retirement income, we know the retirement system is not working for a large portion of the population today. Only five percent of people without a way to save at work will go out on their own and open an IRA. These folks are not courted by the industry due to small account balances and lack of access. Many are under or un-banked. We need to remove the barriers to retirement planning and financing, as well as add incentives like access to pre-tax plans, and make it easy and cost-effective to save for retirement.

Rebuilding the promise of financial security in retirement must include modern, expanded options. We need to explore new models for private sector retirement plans that allow workers to set aside wages through an easily accessible, safe, pre-tax, cost-efficient retirement savings vehicle.

AARP believes that we all have a right to live with self-reliance and dignity in retirement.